

AUDUBON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Audubon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2007 Election)**

Tim Andersen	President	2009
Doug Olson	Vice President	2008
Douglas Olsen	Board Member	2007
Sarah Christensen	Board Member	2008
Mary Jo Krauel	Board Member	2009

**Board of Education
(After September 2007 Election)**

Sarah Christensen	President	2008
Doug Olson	Vice President	2008
Douglas Olsen	Board Member	2010
Tim Andersen	Board Member	2009
Mary Jo Krauel	Board Member	2009

School Officials

Brett Gibbs	Superintendent	2008
John Roberts	Board Secretary/Treasurer	2008
Natalie Lange	Business Manager	2008
Rick Engel	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Audubon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Audubon Community School District, Audubon, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Audubon Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2009 on our consideration of the Audubon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Audubon Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMANN & JOHNSON, P.C.

March 10, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Audubon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,324,254 in fiscal 2007 to \$5,177,307 in fiscal 2008, while General Fund expenditures decreased from \$5,452,902 in fiscal 2007 to \$5,340,962 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$599,594 in fiscal 2007 to a balance of \$374,326 in fiscal 2008, a decrease of 37.57% from the prior year.
- The decrease in General Fund revenues was attributable to decreases in local and state source revenues in fiscal 2008. The decrease in expenditures is attributable to a decrease in the support services expenditures.
- The District's solvency ratio for the year ended June 30, 2008 is 2.40% as compared to 7.20% for the year ended June 30, 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Audubon Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Audubon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Audubon Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Audubon Community School District Annual Financial Report

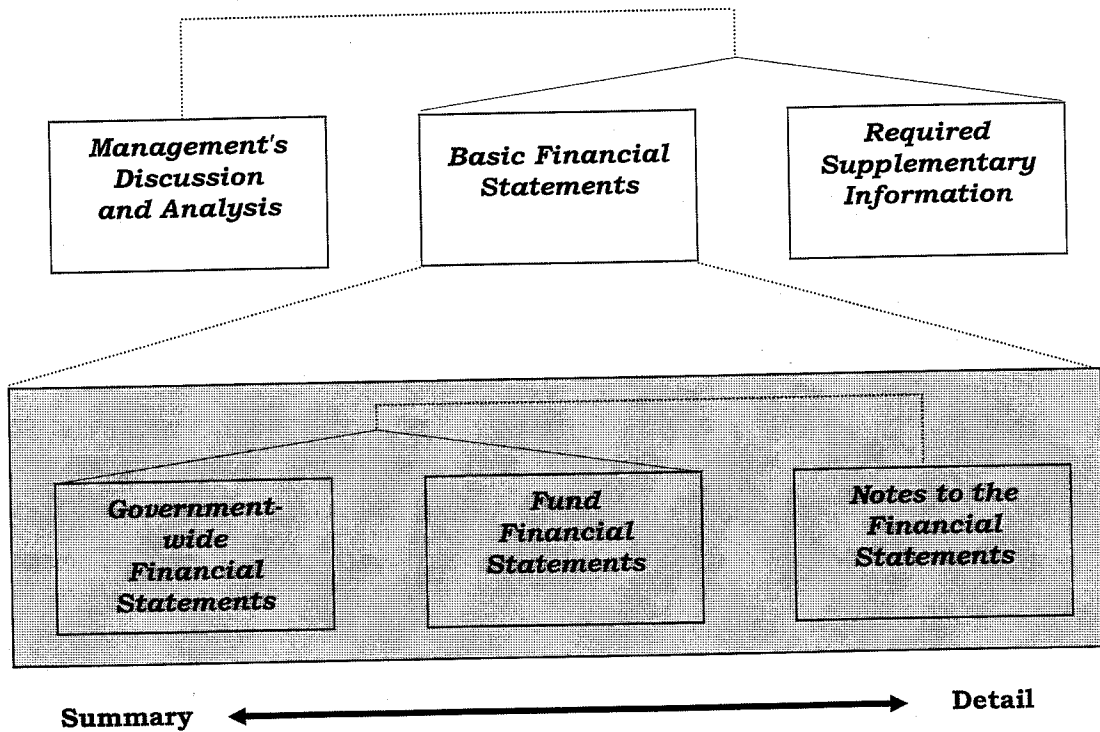


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust Funds.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 3,456,552	4,708,072	83,749	75,817	3,540,301	4,783,889	-26.00%
Capital assets	8,330,341	7,480,817	75,990	45,543	8,406,331	7,526,360	11.69%
Total assets	11,786,893	12,188,889	159,739	127,088	11,946,632	12,310,249	-2.95%
Long-term obligations	4,632,065	4,859,370	0	0	4,632,065	4,859,370	-4.68%
Other liabilities	2,809,618	2,738,329	5,224	3,599	2,814,842	2,741,928	2.66%
Total liabilities	7,441,683	7,597,699	5,224	3,599	7,446,907	7,601,298	-2.03%
Net assets:							
Invested in capital assets, net of related debt	3,704,456	3,043,340	75,990	45,543	3,780,446	3,088,883	22.39%
Restricted	395,559	1,047,103	0	0	395,559	1,047,103	-62.22%
Unrestricted	245,195	500,747	78,525	72,218	323,720	572,965	-43.50%
Total net assets	\$ 4,345,210	4,591,190	154,515	117,761	4,499,725	4,708,951	-4.44%

The District's combined net assets decreased by 4.44%, or \$209,226 from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$651,544 or 62.22% under the prior year.

Unrestricted net assets – are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$249,245, or 43.50%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 464,714	467,613	195,493	175,940	660,207	643,553	2.59%
Operating grants and contributions and restricted interest	715,024	658,031	112,665	109,442	827,689	767,473	7.85%
Capital grants and contributions and restricted interest	27,800	0	0	0	27,800	0	100.00%
General revenues:							
Property tax	2,135,178	2,068,055	0	0	2,135,178	2,068,055	3.25%
Local option sales and service tax	355,611	390,022	0	0	355,611	390,022	-8.82%
Unrestricted state grants	2,369,249	2,510,335	0	0	2,369,249	2,510,335	-5.62%
Other	62,069	195,280	590	2,857	62,659	198,137	-68.38%
Transfers	(33,371)	0	33,371	0	0	0	0.00%
Total revenues	6,096,274	6,289,336	342,119	288,239	6,438,393	6,577,575	-2.12%
Program expenses:							
Governmental activities:							
Instructional	3,843,405	3,653,324	0	0	3,843,405	3,653,324	5.20%
Support services	1,761,976	1,900,021	3,421	1,273	1,765,397	1,901,294	-7.15%
Non-instructional programs	0	0	301,944	294,474	301,944	294,474	2.54%
Other expenditures	736,873	586,659	0	0	736,873	586,659	25.60%
Total expenses	6,342,254	6,140,004	305,365	295,747	6,647,619	6,435,751	3.29%
Change in net assets	(245,980)	149,332	36,754	(7,508)	(209,226)	141,824	-247.53%
Net assets beginning of year	4,591,190	4,441,858	117,761	125,269	4,708,951	4,567,127	3.11%
Net assets end of year	\$ 4,345,210	4,591,190	154,515	117,761	4,499,725	4,708,951	-4.44%

In fiscal 2008, property tax and unrestricted state grants account for 73.89% of the revenue from governmental activities while charges for services and operating grants and contributions account for 90.07% of the revenue from business type activities.

The District's total revenues were \$6,438,393 of which \$6,096,274 was for governmental activities and \$342,119 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 2.12% in revenues and a 3.29% increase in expenses. The increase in expenses was related to increases in expenditures in the instructional and other expenditures functions.

Governmental Activities

Revenues for governmental activities were \$6,096,274 and expenses were \$6,342,254.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 3,843,405	3,653,324	5.20%	2,862,942	2,724,894	5.07%
Support services	1,761,976	1,900,021	-7.27%	1,734,176	1,899,682	-8.71%
Other expenses	736,873	586,659	25.60%	537,598	389,784	37.92%
Totals	<u>\$ 6,342,254</u>	<u>6,140,004</u>	<u>3.29%</u>	<u>5,134,716</u>	<u>5,014,360</u>	<u>2.40%</u>

The cost financed by users of the District's programs was \$464,714.

- Federal and state governments subsidized certain programs with grants and contributions totaling \$715,024.
- The District also, received a donation of equipment that was considered as capital contribution of \$27,800.
- The net cost of governmental activities was financed with \$2,135,178 in property tax, \$355,611 in local option sales and service tax, \$2,369,249 in unrestricted state grants and \$48,375 in interest income, and \$13,694 in other general revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$342,119 and expenses were \$305,365. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Audubon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$495,398, below last year's ending fund balances of \$1,846,790. The primary reason for the decrease in combined fund balances is the use of Capital Projects fund balance for the renovation/addition project at the middle school.

Governmental Fund Highlights

- The General Fund's declining financial position from \$599,594 to \$374,326 is the product of many factors:
 - Decrease in local and state source revenues led to a decrease in overall General Fund revenues.
- The Physical Plant and Equipment Levy Fund balance decreased from \$337,317 in fiscal 2007 to a deficit of \$22,136 in fiscal 2008. This decrease is due mostly impart to the completion of the High School and Middle School Building projects.
- The Capital Projects Fund balance decreased from \$778,381 in fiscal 2007 to a deficit of \$2,080 in fiscal 2008. The decrease in fund balance is because of the completion of the Middle School and High School building projects.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$117,761 at June 30, 2007 to \$154,515 at June 30, 2008, representing an increase of 31.21%. The combination of the increased revenues exceeding expenditures, along with the contributed capital from the Special Revenue: Physical Plant and Equipment Levy guaranteed the increase in the fund balance.

BUDGETARY HIGHLIGHTS

The District's revenues were \$298,318 less than budgeted revenues, a variance of 4.46%. The most significant variance resulted from the District receiving less in state source revenues than originally anticipated.

Initially, total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$8,406,331, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$477,506.

The original cost of the District's capital assets was \$16,194,796. Governmental funds account for \$15,905,146 with the remainder of \$289,650 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's reported construction in progress at June 30, 2008 was \$0, as compared to \$4,876,934 for June 30, 2007. The dramatic decrease in construction in progress is attributable to the finishing of the renovation/addition to the elementary building and the middle school/high school building.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 3,200	3,200	0	0	3,200	3,200	0.00%
Construction in progress	0	4,876,934	0	0	0	4,876,934	-100.00%
Buildings	7,408,068	1,526,119	0	0	7,408,068	1,526,119	385.42%
Land improvements	353,297	392,573	0	0	353,297	392,573	-10.00%
Machinery and equipment	565,776	681,991	75,990	45,543	641,766	727,534	-11.79%
Total	\$ 8,330,341	7,480,817	75,990	45,543	8,406,331	7,526,360	11.69%

Long-Term Debt

At June 30, 2008, the District had \$4,632,065 in other long-term debt outstanding. This represents a decrease of 4.68%. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$4,510,000 at June 30, 2008.

During the year the District entered into two separate bus leases for a total of four new buses. At June 30, 2008, the District still owed \$115,885 which will be paid from the General Fund.

The District had total outstanding compensated absences payable from the General Fund of \$6,180 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 4,510,000	4,685,000	-3.74%
Bus leases	115,885	169,684	-31.71%
Compensated absences	6,180	4,686	31.88%
Total	\$ 4,632,065	4,859,370	-4.68%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District projects a declining enrollment trend of approximately 10 students per year. We are anticipating the declining enrollment will be offset by the projected increase in our state SILO tax dollars per student.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Natalie Lange, Business Manager, Audubon Community School District, 800 Third Avenue, Audubon, Iowa, 50025.

BASIC FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,000,940	13,682	1,014,622
Receivables:			
Property tax:			
Delinquent	25,820	0	25,820
Succeeding year	2,074,013	0	2,074,013
Income surtax	170,846	0	170,846
Accounts	1,406	958	2,364
Interfund	(63,220)	63,220	0
Due from other governments	246,747	0	246,747
Inventories	0	5,889	5,889
Capital assets, net of accumulated depreciation (Note 5)	8,330,341	75,990	8,406,331
TOTAL ASSETS	11,786,893	159,739	11,946,632
LIABILITIES			
Accounts payable	220,666	0	220,666
Salaries and benefits payable	495,629	194	495,823
Interest payable	19,310	0	19,310
Deferred revenue:			
Succeeding year property tax	2,074,013	0	2,074,013
Unearned revenue	0	5,030	5,030
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	185,000	0	185,000
Bus leases	56,515	0	56,515
Compensated absences	6,180	0	6,180
Portion due after one year:			
General obligation bonds	4,325,000	0	4,325,000
Bus leases	59,370	0	59,370
TOTAL LIABILITIES	7,441,683	5,224	7,446,907
NET ASSETS			
Invested in capital assets, net of related debt	3,704,456	75,990	3,780,446
Restricted for:			
Beginning teacher mentoring	51	0	51
Market factor	3,655	0	3,655
Reading Recovery	2,500	0	2,500
Early intervention	37,174	0	37,174
Professional development	3,594	0	3,594
Market factor incentives	4,712	0	4,712
Talented and gifted	198,585	0	198,585
Management levy	66,131	0	66,131
Other special revenue purposes	79,157	0	79,157
Unrestricted	245,195	78,525	323,720
TOTAL NET ASSETS	\$ 4,345,210	154,515	4,499,725

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 2,708,636	155,518	477,185	0	(2,075,933)	0	(2,075,933)
Special instruction	457,369	16,546	32,064	0	(408,759)	0	(408,759)
Other instruction	677,400	292,650	6,500	0	(378,250)	0	(378,250)
	3,843,405	464,714	515,749	0	(2,862,942)	0	(2,862,942)
Support services:							
Student services	175,695	0	0	0	(175,695)	0	(175,695)
Instructional staff services	190,307	0	0	27,800	(162,507)	0	(162,507)
Administration services	607,620	0	0	0	(607,620)	0	(607,620)
Operation and maintenance of plant services	503,595	0	0	0	(503,595)	0	(503,595)
Transportation services	284,759	0	0	0	(284,759)	0	(284,759)
	1,761,976	0	0	27,800	(1,734,176)	0	(1,734,176)
Other expenditures:							
Facilities acquisitions	29,046	0	0	0	(29,046)	0	(29,046)
Interest and fiscal charges	201,288	0	0	0	(201,288)	0	(201,288)
AEA flowthrough	199,275	0	199,275	0	0	0	0
Depreciation(unallocated)*	307,264	0	0	0	(307,264)	0	(307,264)
	736,873	0	199,275	0	(537,598)	0	(537,598)
Total governmental activities	6,342,254	464,714	715,024	27,800	(5,134,716)	0	(5,134,716)
Business-Type activities:							
Support services:							
Operations and maintenance plant services	3,421	0	0	0	0	(3,421)	(3,421)
Non-instructional programs:							
Nutrition services	301,944	195,493	112,665	0	0	6,214	6,214
Total business-type activities	305,365	195,493	112,665	0	0	2,793	2,793
Total	\$ 6,647,619	660,207	827,689	27,800	(5,134,716)	2,793	(5,131,923)
General Revenues and Transfers:							
General revenues:							
Local tax for:							
General purposes					\$ 1,983,376	0	1,983,376
Capital outlay					151,802	0	151,802
Local option sales and service tax					355,611	0	355,611
Unrestricted state grants					2,369,249	0	2,369,249
Unrestricted investment earnings					48,375	590	48,965
Other					13,694	0	13,694
Transfers					(33,371)	33,371	0
Total general revenues and transfers					4,888,736	33,961	4,922,697
Changes in net assets					(245,980)	36,754	(209,226)
Net assets beginning of year					4,591,190	117,761	4,708,951
Net assets end of year					\$ 4,345,210	154,515	4,499,725

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 785,488	27,354	188,098	1,000,940
Receivables:				
Property tax:				
Delinquent	22,775	0	3,045	25,820
Succeeding year	1,754,294	0	319,719	2,074,013
Income surtax	170,846	0	0	170,846
Accounts	342	0	1,064	1,406
Due from other governments	99,295	147,452	0	246,747
TOTAL ASSETS	\$ 2,833,040	174,806	511,926	3,519,772
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	0	63,220	63,220
Accounts payable	37,945	176,886	5,835	220,666
Salaries and benefits payable	495,629	0	0	495,629
Deferred revenue:				
Succeeding year property tax	1,754,294	0	319,719	2,074,013
Income surtax	170,846	0	0	170,846
Total liabilities	2,458,714	176,886	388,774	3,024,374
Fund balances:				
Reserved for:				
Beginning teacher mentoring	51	0	0	51
Market factor	3,655	0	0	3,655
Reading Recovery	2,500	0	0	2,500
Professional Development	3,594	0	0	3,594
Market factor incentives	4,712	0	0	4,712
Early intervention	37,174	0	0	37,174
Talented and gifted	198,585	0	0	198,585
Unreserved:				
Undesignated	124,055	(2,080)	123,152	245,127
Total fund balances	374,326	(2,080)	123,152	495,398
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,833,040	174,806	511,926	3,519,772

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$	495,398
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		8,330,341
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Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		170,846
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Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(19,310)
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Long-term liabilities, including compensated absences, general obligation bonds payable and bus leases payable are not due and payable, in the current period and, therefore, are not reported as liabilities in the governmental funds.		(4,632,065)
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Net assets of governmental activities (page 13)	\$	4,345,210
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SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,882,427	355,611	226,676	2,464,714
Tuition	172,064	0	0	172,064
Other	45,207	18,246	297,766	361,219
State sources	2,916,671	0	164	2,916,835
Federal sources	160,938	0	0	160,938
Total revenues	5,177,307	373,857	524,606	6,075,770
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,708,685	0	0	2,708,685
Special instruction	457,369	0	0	457,369
Other instruction	397,377	0	269,520	666,897
	3,563,431	0	269,520	3,832,951
Support services:				
Student support	171,316	0	0	171,316
Instructional staff services	155,948	0	0	155,948
Administration services	580,908	0	26,034	606,942
Operation and maintenance of plant services	483,028	0	56,756	539,784
Transportation services	187,056	0	0	187,056
	1,578,256	0	82,790	1,661,046
Other expenditures:				
Facilities acquisitions	0	871,691	430,359	1,302,050
Long term debt:				
Principal	0	0	228,799	228,799
Interest	0	0	203,796	203,796
AEA flowthrough	199,275	0	0	199,275
	199,275	871,691	862,954	1,933,920
Total expenditures	5,340,962	871,691	1,215,264	7,427,917
Deficiency of revenues under expenditures	(163,655)	(497,834)	(690,658)	(1,352,147)
OTHER FINANCING SOURCES(USES):				
Compensation on loss of capital assets	755	0	0	755
Transfer in	0	0	432,595	432,595
Transfer out	(62,368)	(282,627)	(87,600)	(432,595)
TOTAL OTHER FINANCING SOURCE(USES)	(61,613)	(282,627)	344,995	755
Net change in fund balances	(225,268)	(780,461)	(345,663)	(1,351,392)
Fund balance beginning of year	599,594	778,381	468,815	1,846,790
Fund balance end of year	\$ 374,326	(2,080)	123,152	495,398

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ (1,351,392)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense, capital outlay expenditures, and loss on disposal of assets in the current year are as follows:

Expenditures for capital assets	\$ 1,327,257	
Depreciation expense	(445,552)	
Loss on asset disposal	<u>(32,181)</u>	849,524

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

228,799

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due.

2,508

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

26,075

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences

(1,494)

Changes in net assets of governmental activities (page 14)

\$ (245,980)

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 13,682
Receivables:	
Interfund	63,220
Accounts	958
Inventories	5,889
Capital assets, net of accumulated depreciation (Note 5)	75,990
TOTAL ASSETS	<u>159,739</u>
LIABILITIES	
Salaries and benefits payable	194
Unearned revenue	5,030
TOTAL LIABILITIES	<u>5,224</u>
NET ASSETS	
Invested in capital assets	75,990
Unrestricted	78,525
TOTAL NET ASSETS	<u>\$ 154,515</u>

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 186,062
Other local income	9,431
TOTAL OPERATING REVENUES	<u>195,493</u>
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant services:	
Services	<u>3,421</u>
Non-instructional programs:	
Food service operations:	
Salaries	103,311
Benefits	13,920
Services	44
Supplies	152,715
Depreciation	<u>31,954</u>
Total non-instructional programs	<u>301,944</u>
TOTAL OPERATING EXPENSES	<u>305,365</u>
OPERATING LOSS	<u>(109,872)</u>
NON-OPERATING REVENUES:	
State sources	3,430
Federal sources	109,235
Interest income	590
TOTAL NON-OPERATING REVENUES	<u>113,255</u>
Change in net assets before capital contributions	3,383
Capital contribution	<u>33,371</u>
Change in net assets	36,754
Net assets beginning of year	<u>117,761</u>
Net assets end of year	<u><u>\$ 154,515</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 188,520
Cash received from miscellaneous sources	9,431
Cash payments to employees for services	(117,037)
Cash payments to suppliers for goods or services	(141,084)
Net cash used in operating activities	<u>(60,170)</u>
Cash flows from non-capital financing activities:	
Interfund Borrowings	(63,220)
State grants received	3,430
Federal grants received	91,381
Net cash provided by non-capital financing activities	<u>31,591</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(29,030)</u>
Cash flows from investing activities:	
Interest on investments	<u>590</u>
Net decrease in cash and cash equivalents	(57,019)
Cash and cash equivalents at beginning of year	<u>70,701</u>
Cash and cash equivalents at end of year	<u>\$ 13,682</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (109,872)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,854
Depreciation	31,954
Increase in inventories	(773)
Increase in accounts receivable	(958)
Decrease in accounts payable	(1,985)
Increase in Salaries and benefits payable	194
Increase in unearned revenue	3,416
Net cash used in operating activities	<u>\$ (60,170)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 13,682</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$17,854.

During the year ended June 30, 2008, the Nutrition Fund received contributed capital of \$33,371 from the Special Revenue: Physical Plant and Equipment Levy.

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 198,890</u>
LIABILITIES	
Scholarships payable	<u>9,100</u>
NET ASSETS	
Reserved for scholarships	171,968
Unreserved	17,822
TOTAL NET ASSETS	<u>\$ 189,790</u>

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2008

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ 8,932
Contributions	<u>2,665</u>
Total additions	<u>11,597</u>
Deductions:	
Scholarships awarded	<u>12,597</u>
Change in net assets	(1,000)
Net assets beginning of year	<u>190,790</u>
Net assets end of year	<u>\$ 189,790</u>

SEE NOTES TO FINANCIAL STATEMENTS

AUDUBON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The Audubon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Audubon, Iowa, and the predominate agricultural territory in Audubon and Guthrie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Audubon Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Audubon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Audubon and Guthrie Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which

normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 400
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial

statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information

(2) Cash and Pooled Investments

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Iowa Schools Joint Investment Trust	\$ 174,270

The investments are valued at an amortized cost pursuant to Rule2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the District in the District's name. Certificates are stated at fair value.

At June 30, 2008, the District had investments in Certificates of Deposit maturing over one year as follows:

	Fair Value
Certificates of Deposit	\$ 170,682

(3) Transfers

The detail of the transfer for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 282,627
Debt Service	General	62,368
Debt Service	Special Revenue: Physical Plant and Equipment Levy	87,600
Total		\$ 432,595

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Due To And Due From Other Funds

The detail of interfund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
Nutrition Fund	Special Revenue - Physical Plant and Equipment Levy	\$ 63,220

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,200	0	0	3,200
Construction in progress	4,876,934	0	4,876,934	0
Total capital assets not being depreciated	4,880,134	0	4,876,934	3,200
Capital assets being depreciated:				
Buildings	7,324,518	6,149,938	0	13,474,456
Land improvements	785,517	0	0	785,517
Machinery and equipment	1,919,912	54,253	332,192	1,641,973
Total capital assets being depreciated	10,029,947	6,204,191	332,192	15,901,946
Less accumulated depreciation for:				
Buildings	5,798,399	267,989	0	6,066,388
Land improvements	392,944	39,276	0	432,220
Machinery and equipment	1,237,921	138,287	300,011	1,076,197
Total accumulated depreciation	7,429,264	445,552	300,011	7,574,805
Total capital assets being depreciated, net	2,600,683	5,758,639	32,181	8,327,141
Governmental activities capital assets, net	\$ 7,480,817	5,758,639	4,909,115	8,330,341
Business-type activities:				
Machinery and equipment	\$ 227,249	62,401	0	289,650
Less accumulated depreciation	181,706	31,954	0	213,660
Business-type activities capital assets, net	\$ 45,543	30,447	0	75,990

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 6,972
Other	10,503

Support services:

Student	4,379
Instructional staff	43,030
Administrative services	2,373
Operation and maintenance of plant	4,754
Transportation	66,277

Unallocated depreciation 307,264

Total governmental activities depreciation expense \$ 445,552

Business-type activities:

Food services \$ 31,954

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 4,685,000	0	175,000	4,510,000	185,000
Bus leases	169,684	0	53,799	115,885	56,515
Compensated absences	4,686	6,180	4,686	6,180	6,180
Total	<u>\$ 4,859,370</u>	<u>6,180</u>	<u>233,485</u>	<u>4,632,065</u>	<u>247,695</u>

General Obligation Bonds Payable

Details of the District's June 30, 2008 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond issue dated July 1, 2005			
		Principal	Interest	Total	
2009	5.000	% \$ 185,000	186,078	371,078	
2010	4.600	195,000	176,828	371,828	
2011	4.250	200,000	167,858	367,858	
2012	4.150	210,000	159,358	369,358	
2013	4.125	220,000	150,642	370,642	
2014-2018	3.700-4.125	1,250,000	611,808	1,861,808	
2019-2023	4.000-4.150	1,535,000	344,916	1,879,916	
2024-2025	4.200-4.250	715,000	45,724	760,724	
		<u>\$ 4,510,000</u>	<u>1,843,212</u>	<u>6,353,212</u>	

Bus Leases Payable

During the year ended June 30, 2007, the District entered into two separate leases for four buses. The lease bears a 5.05% per annum. Details of the District's June 30, 2008 bus lease indebtedness which will be paid from the General Fund is as follows:

Year Ending June 30,	Bus lease dated October 19, 2006		Bus lease dated January 30, 2007		Total		
	Principal Interest		Principal Interest		Principal Interest	Total	Total
2009	\$ 42,636	4,416	\$ 13,879	1,438	\$ 56,515	5,854	62,369
2010	44,790	2,261	14,580	736	59,370	2,997	62,367
Total	\$ 87,426	6,677	\$ 28,459	2,174	\$ 115,885	8,851	124,736

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$209,204, \$196,096, and \$190,448, respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, life and long-term disability. District contributions to ISEBA for the year ended June 30, 2008 were \$3,671.

Audubon Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$199,275 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Contingencies

As of June 30, 2008, the District is involved in a lawsuit against the District that arose during the normal course of operations. The District has insurance to pay for damages that might arise from a settlement once the case has been settled. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

11) Financial Condition

The Capital Projects Fund had deficit fund balance of \$2,080 as of June 30, 2008.

The District had a deficit fund balance of \$22,136 in the Special Revenues, Physical Plant and Equipment Levy as of June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

AUDUBON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total	Original	Final	Actual
	Actual	Actual	Actual			Variance
Revenues:						
Local sources	\$ 2,997,997	196,083	3,194,080	3,204,646	3,204,646	(10,566)
State sources	2,916,835	3,430	2,920,265	3,195,190	3,195,190	(274,925)
Federal sources	160,938	109,235	270,173	283,000	283,000	(12,827)
Total revenues:	6,075,770	308,748	6,384,518	6,682,836	6,682,836	(298,318)
Expenditures:						
Instruction	3,832,951	0	3,832,951	5,092,106	5,092,106	1,259,155
Support services	1,661,046	3,421	1,664,467	1,675,000	1,675,000	10,533
Non-instructional programs	0	301,944	301,944	452,469	452,469	150,525
Other expenditures	1,933,920	0	1,933,920	2,921,889	2,921,889	987,969
Total expenditures:	7,427,917	305,365	7,733,282	10,141,464	10,141,464	2,408,182
Excess(deficiency) of revenues over(under) expenditures	(1,352,147)	3,383	(1,348,764)	(3,458,628)	(3,458,628)	2,109,864
Other financing sources, net	755	33,371	34,126	0	0	34,126
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(1,351,392)	36,754	(1,314,638)	(3,458,628)	(3,458,628)	2,143,990
Balance beginning of year	1,846,790	117,761	1,964,551	3,136,461	3,136,461	(1,171,910)
Balance end of year	\$ 495,398	154,515	649,913	(322,167)	(322,167)	972,080

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

AUDUBON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

AUDUBON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds				Total	
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 65,118	80,833	42,147	188,098	0	188,098
Receivables:						
Property tax:						
Current year delinquent	1,013	0	2,032	3,045	0	3,045
Succeeding year	85,000	0	163,242	248,242	71,477	319,719
Accounts	0	1,064	0	1,064	0	1,064
Total assets	\$ 151,131	81,897	207,421	440,449	71,477	511,926
Liabilities and Fund Balances						
Liabilities:						
Interfund payable	\$ 0	0	63,220	63,220	0	63,220
Accounts payable	0	2,740	3,095	5,835	0	5,835
Deferred revenue:						
Succeeding year property tax	85,000	0	163,242	248,242	71,477	319,719
Total liabilities	85,000	2,740	229,557	317,297	71,477	388,774
Fund balances:						
Unreserved, undesignated	66,131	79,157	(22,136)	123,152	0	123,152
TOTAL LIABILITIES AND FUND BALANCES	\$ 151,131	81,897	207,421	440,449	71,477	511,926

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

AUDUBON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 74,874	0	151,802	226,676	0	226,676
Other	11,903	279,269	6,594	297,766	0	297,766
State sources	54	0	110	164	0	164
TOTAL REVENUES	86,831	279,269	158,506	524,606	0	524,606
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	269,520	0	269,520	0	269,520
Support services:						
Administration services	26,034	0	0	26,034	0	26,034
Operation and maintenance of plant services	56,756	0	0	56,756	0	56,756
Other expenditures:						
Facilities Acquisition	0	0	430,359	430,359	0	430,359
Long term debt:						
Principal	0	0	0	0	228,799	228,799
Interest and fiscal charges	0	0	0	0	203,796	203,796
TOTAL EXPENDITURES	82,790	269,520	430,359	782,669	432,595	1,215,264
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	4,041	9,749	(271,853)	(258,063)	(432,595)	(690,658)
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	0	0	432,595	432,595
Transfer out	0	0	(87,600)	(87,600)	0	(87,600)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(87,600)	(87,600)	432,595	344,995
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	4,041	9,749	(359,453)	(345,663)	0	(345,663)
FUND BALANCE BEGINNING OF YEAR	62,090	69,408	337,317	468,815	0	468,815
FUND BALANCE END OF YEAR	\$ 66,131	79,157	(22,136)	123,152	0	123,152

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

AUDUBON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Unreserved Fund Balance Expenditure	\$ 80	0	0	80
Drama	4,946	7,730	6,956	5,720
Journalism	109	100	0	209
Speech	0	1,165	483	682
Ink Drinkers Book Club	0	111	66	45
Instrumental Music	562	2,001	2,177	386
Cross Country	0	145	144	1
Tennis Association	0	9,442	9,959	(517)
Athletics	7,253	59,417	53,211	13,459
Boys Basketball	362	1,025	1,257	130
Football	800	1,070	994	876
Youth Wrestling	0	2,947	1,422	1,525
Baseball	(428)	3,225	2,025	772
Boys Track	63	75	0	138
Boys Tennis	165	439	354	250
Weight Room	0	2,035	1,448	587
Wrestling	484	2,895	3,653	(274)
Girls Basketball	1,700	3,100	3,117	1,683
Volleyball	807	1,196	1,272	731
Softball	333	2,186	2,210	309
Girls Track	162	1,143	1,067	238
Girls Tennis	3,067	1,400	4,402	65
Girls Golf	0	97	96	1
Book Fair	0	5,336	3,244	2,092
Library Club	0	300	0	300
Industrial Tech	640	4,321	4,560	401
Vo Ag Resale	317	5	0	322
Greenhouse	0	3,420	2,658	762
Box Tops	930	0	111	819
High School	1,255	47,039	47,667	627
Elementary	660	3,414	2,039	2,035
Middle School	2,201	6,234	7,283	1,152
MS Special Ed	0	147	86	61
HS Special Ed	0	127	77	50
Elementary Sp Ed	0	127	0	127
Middle School Music	172	0	135	37
Elementary Music	33	0	0	33
Annual	6,112	12,139	14,145	4,106
Concessions	1,463	23,626	24,329	760
Show and Jazz Choir	957	3,433	2,667	1,723
Home Ec	990	1,365	1,387	968
Class of 2007	1,363	11	1,374	0
Class of 2008	2,323	2,107	4,430	0
Class of 2009	250	21,177	12,509	8,918
Class of 2010	124	1,152	848	428
Class of 2011	0	294	0	294
AFS Club	377	250	20	607
Art Club	289	0	0	289
Future Homemakers of America	532	619	1,146	5
Future Farmers of America	22,876	25,619	27,898	20,597
National Honor Society	873	495	355	1,013
Peer Helpers	13	0	0	13
Cheerleaders - Pep Club	1,047	3,245	3,852	440
Spanish Club	125	0	0	125
Drill Team	982	3,597	3,191	1,388
Student Senate	1,010	5,975	6,271	714
JH Student Senate	1,029	251	425	855
Character Counts	0	500	500	0
Total	\$ 69,408	279,269	269,520	79,157

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

AUDUBON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 2,464,714	2,458,077	2,332,913	2,284,320	1,966,025
Tuition	172,064	186,940	159,658	167,763	177,860
Other	361,219	490,793	647,225	349,229	319,657
State sources	2,916,835	2,997,279	2,839,688	2,913,855	2,662,840
Federal sources	160,938	171,087	196,279	244,165	176,032
Total	\$ 6,075,770	6,304,176	6,175,763	5,959,332	5,302,414
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 2,708,685	2,613,509	2,499,319	2,246,222	2,274,590
Special instruction	457,369	358,343	407,126	344,316	530,756
Other instruction	666,897	643,154	756,460	704,122	591,971
Support services:					
Student services	171,316	211,402	186,747	186,202	133,657
Instructional staff services	155,948	193,497	203,637	226,682	208,977
Administration services	606,942	616,883	659,114	651,970	569,298
Operation and maintenance of plant services	539,784	528,328	464,780	492,329	496,297
Transportation services	187,056	412,105	164,608	193,742	220,793
Central support services	0	0	0	2,237	1,490
Non-instructional programs	0	0	0	0	3,923
Other expenditures:					
Facilities acquisitions	1,302,050	4,044,670	1,061,501	347,370	134,213
AEA flow-through	199,275	196,875	188,080	188,181	191,517
Long term debt:					
Principal	228,799	232,368	125,000	0	0
Interest	203,796	203,727	190,794	0	0
Total	\$ 7,427,917	10,254,861	6,907,166	5,583,373	5,357,482

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Audubon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Audubon Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 10, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Audubon Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Audubon Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Audubon Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Audubon Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Audubon Community School District's financial statements that is more than inconsequential will not be prevented or detected by Audubon Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of the Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Audubon Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Audubon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Audubon Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Audubon Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Audubon Community School District and other parties to whom Audubon Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Audubon Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 10, 2009

AUDUBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8)." Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

Currently, donations from Target and Box Tops are recorded in the Elementary account in the Student Activity Fund. Target and Box Top donations are considered an undesignated donation; therefore, they should be receipted into the General Fund for use as determined by the District's Board of Directors. The designation should be noted annually in the District's board minutes. It was also noted, that the Lifetouch commissions were being receipted into the Student Activity Fund. The General Fund is the only fund that may accept commissions, therefore, those monies should be receipted into the General Fund.

Currently, book fair and field trip revenues and expenditures are being run through the Activity Fund. Book fair transactions should be ran through the General Fund, because,

any profits from the book fairs are used to purchase instructional materials. Field trip transactions are instructional in nature and should also, be processed through the General Fund. There is also, Industrial Technical, library club, and home economics accounts in the Activity Fund. These are usually instructional in nature and therefore, should be transferred into the General Fund. Donations of money and products for lawn care for example, are more appropriate in the General Fund.

The Student Senate account awards scholarships from proceeds from donations and miscellaneous receipts generated by the Student Activity Fund during the year. When donations are received by the District the revenues should be recorded in the fund that may legally pay for the purpose of the donation. Scholarships are most appropriately paid from the Private Purpose Trust Fund; therefore, proceeds from scholarship donations should be placed and expended from the Private Purpose Trust Fund.

The District should review the properness of receipts and expenditures that are recorded in the Student Activity Fund. The District should also review procedures that are in place in regards to the Activity Fund and follow the suggested recommendations to gain compliance and better internal controls.

Response - The Target and Box Tops are being recorded in the Elementary account and have been there since our audit in October 2007. Lifetouch commissions will also, be receipted into the General Fund.

We have moved the transaction from the field trips, book fair, industrial technical, library club, and home economics to the General Fund.

We will transfer funds out of the Student Activity Accounts to the Private Purpose Trust Fund for the purpose of issuing a scholarship

We are reviewing the properness of the receipts and expenditures to the Student Activity Fund and are making changes on the following recommendations.

Conclusion - Response accepted.

I-C-08 Scholarship Awards - We noted that when scholarships were awarded to the student from the trust fund, the check was being written directly to the student.

Recommendation - When the District writes checks for scholarship awards, the check is written to the student only. A better practice would be for the District to write the check to the individual and the college/university the student is attending once the student has supplied proof of attendance to the District.

Response - We are writing the scholarship checks to the students and the University. This changed after our audit in October of 2007.

Conclusion - Response accepted.

I-D-08 Purchase Orders - We noted during our audit that District did not use purchase orders in the purchase process, however, many of the purchase orders are actually completed after the product is ordered and at times may be completed after the receipt of the products...

Recommendation - The advantage of using a purchase order system is that the approvals of the items being purchased are noted prior to the ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also, reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring the actual expenses, it can be helpful to

know the outstanding orders which will be subsequently paid, therefore, allowing the person who approves the purchase orders, the insight to know, if there is still available funding to make the purchase.

Although, Districts are not required to a purchase order system, the benefits to financial management make the system, desirable. The District's current purchase order system should be reviewed and the necessary changes made so that all disbursements are approved by the appropriate administrator, before the ordering of the supplies takes place.

Response - We are currently reviewing our purchase order system and will be making changes to this procedure.

Conclusion - Response accepted.

- I-E-08 Supporting Documents for Travel Reimbursement - It was noted during the audit, instances of a meal and parking reimbursements which lacked a detailed receipt for supporting documentation.

Recommendation - The District has a policy in place for meals, hotels, parking, and other out of District expenditures reimbursements, which states that the staff need to provide the detailed receipts for purchases made. The District should review their procedures in place with personnel to ensure that the proper detailed documentation is furnished for supporting documentation. The District should require additional approval of expense, if proper documentation is not available.

Response - We will review our procedures for travel reimbursements.

Conclusion - Response accepted.

- I-F-08 Board Policies - We noted during our audit the District has not implemented a capital asset policy. The District should implement a policy that addresses the dollar capitalization threshold and years to depreciate assets over. The policy should also address that the District should keep track of assets over \$500 for insurance purposes.

We noted also, during our audit the District's board policy book appears to have not been kept up to date. All board policies should be reviewed every five years and documented when approved and reviewed.

Recommendation - The District should review their board policies in place and update or implement the necessary policies. The District should review the board policy book and update all policies that have not been updated within the past five years. The District should take steps to review board policies in a more timely manner.

Response - We are in the process of updating our board policy book.

Conclusion - Response accepted.

- I-G-08 Fixed Assets - A record of Nutrition fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets.

Response - We will make sure our Nutrition Fixed Assets are kept current.

Conclusion - Response accepted.

- I-H-08 Drug Free Grant - The final quarterly report for the Safe and Drug Free Grant was not filed timely. As a result, subsequent funding was not received.

Recommendation - The district should file the quarterly report by the due date. The district should monitor timelines for grants to ensure that final reports are filed timely and therefore grant revenues are received for the programs.

Response - We will monitor our report deadlines and get them filed in a timely manner.

Conclusion - Response accepted.

- I-I-08 Payroll procedures- We noted during our audit, instances of changes being made to classified staff contracts, without an addendum being prepared and signed by both parties.

We also noted an instance of a calculation error on the number of hours worked by an employee. The number of hours worked was more than the number of hours paid for.

Recommendation - The District should prepare and have both parties sign, any change that might be made to the Classified Employee's contract. The district should reimburse the employee the shortage in their wage. The District should review and implement policies ensuring that contracts are complete, up to date, and correctly signed. The salary including any employer paid benefits, should match, what is being printed in the payroll register.

Response - We will prepare an addendum with both parties signing and dating any changes made to a contract. We have reimbursed the employee the shortage and will carefully monitor this in the future.

Conclusion - Response accepted.

- I-J-08 Accounts Payable Over Payment - During our audit, we noted that the District had over paid Paragon Construction, \$1,999.80.

Recommendation - The District should contact the vendor and request a refund of the over payment.

Response - We have contacted Paragon regarding the overpayment.

Conclusion - Response accepted.

- I-K-08 Receipting Procedures - We note that sponsors of students' organizations were collecting from individuals, fundraising events and other revenue fees. The sponsor or designated person performing the collecting, which subsequently is turned into the office for receipting, depositing, and posting, do not appear include the proper documentation for later reconciliation uses. We noted that once the funds were collected at the office, these were handled in a comparable manner as receipts directly delivered to the office, where receipts are given and deposited. The copies of the receipts issued at the buildings are provided to the central office for posting and reconciling the bank statement. There, does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposit.

Recommendation -The District actually maintains multiple layers of receipting from sponsors, to the building office, to the central office. When sponsors of fundraising chair persons submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts. This document should be used when reconciling deposits to receipts.

Response - We will develop a form to be used for multiple collected receipts. This will be used to reconcile deposits to receipts.

Conclusion - Response accepted.

AUDUBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, did not exceed the amount budgeted.
- II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-08 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mary Krauel, Board Member Substitute Teacher	Substitute Teaching	\$60

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions do not appear to represent a conflict of interest.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the time period required, however, we are unable to control the publishing dates. We will keep copies of the e-mail when the minutes are sent to the publisher as proof that the minutes were supplied within two weeks.

Conclusion - Response accepted.

- II-G-08 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.
- II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-08 Financial Condition -The District has two deficit account balances in the Special Revenue, Student Activity Fund totaling \$791.

The District had a deficit fund balance of \$22,136 in the Special Revenues: Physical Plant and Equipment Levy.

The District had a deficit fund balance of \$2,080 in the Capital Projects Fund.

Recommendation -The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should also, investigate alternatives to eliminate the deficit balances in the Special Revenue: Student Activity Fund and Physical Plant and Equipment Levy, and Capital Projects Funds.

Response - We will watch these accounts more closely in the future.

Conclusion - Response accepted.

II-K-08 Signing of Officiating Contracts - We noted during our audit that the Board President was not signing athletic officiating contracts for the District. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts the District enters into, to comply with Chapter 291.1 of the Code of Iowa.

Response - The Board President is now signing athletic officiating contracts.

Conclusion - Response accepted.